



Organisational change and innovation in small accounting practices: evidence from the field

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Abstract

Purpose – The purpose of this paper is to explore the nature of context specific issues and challenges facing small accounting practices (SAPs) in Australian regional and rural centres. It is argued that these firms face a dynamic and continuously changing environment which requires strategic responses on the part of SAP owners. The paper explores how SAPs accommodate and respond to their contextual environment, and in turn, shape that environment.

Design/methodology/approach – This paper adopts a qualitative case study research approach involving the review and analysis of the prior literature and relevant archival documents, and semi-structured interviews with the key SAP owner/managers.

Findings – The findings suggest that SAPs adopt innovative strategies and structures. The SAPs in this study were generally found to be resilient and dynamic in responding to the changes in their contextual environment. Significant differences between SAPs were also found, particularly on how they addressed contextual uncertainties.

Research limitations/implications – This is a case study research on SAPs in rural and regional centres. Any generalization of the conclusions from this study should be undertaken with care, even though there are similarities between SAPs operating in rural and regional centres and those operating in large metropolitan areas.

Originality/value – This paper makes an important contribution by highlighting the SAPs' responses depending on their contextual environment.

Keywords Organizational change, Innovation, Accounting firms, Small enterprises

Paper type Case study

1. Introduction

The contextual environments within which professional accounting firms operation have undergone changes (Hinings *et al.*, 1999; Greenwood and Lachman, 1996; Brock *et al.*, 1999; Brock and Powell, 2005). Rapidly changing technology along with greater demands for better reporting requirements have influenced accounting practices and services (Aharoni, 1999; Greenwood and Hinings, 1996). Accounting firms also face competition from other professional firms because the rigid boundaries between different professional firms, once protected, have narrowed as a result of deregulatory measures in different countries. Professional firms have a tendency to become a one stop shop for their clients. Accounting firms have moved in this direction to take advantage of the situation by adopting strategic and structural changes to their operations. Various authors have studied these changes which mainly concentrate on the nature of services offered (Brock *et al.*, 1999; Greenwood and Lachman, 1996).



Accounting firms, especially the large global accounting firms, have moved away from traditional core auditing services to consulting and other types of accounting-related works (Greenwood and Hinings, 1996; Brock *et al.*, 1999; Brock and Powell, 2005). The nature of services offered by accounting firms has changed from generalist to more specialised services. Greenwood and Lachman (1996) have outlined these changes as a radical departure from traditional ways of operations. Apart from service redesign, many accounting firms have adopted structural changes through merger and expansion to reach different geographical territories. Large accounting firms now have a global presence and this has led to standardised internal operating procedures and practices with a view to prove quality services. This was achieved through training and packaging standardised services. It is argued that research works to date have mostly concentrated on big accounting firms. Apart from multinational and large accounting practices, the majority of accounting practices are of small and medium in nature. These firms are also affected by similar regulatory and reporting changes; however, it is argued that the nature of changes in small accounting practices (SAPs) in the face of global and local forces is remarkable.

The aim of the study is to explore context-specific issues and challenges facing SAPs in Australian regional and rural areas. These regional and rural areas are far removed from major cities where accounting practice faces challenges of a different nature, let alone difficulties in areas such as, undertaking professional development and keeping up-to-date with current issues in taxation and compliance. These firms face a dynamic and continuously changing environment that requires strategic responses on the part of their owners. This study attempts to understand and explore in depth the contextual issues and challenges faced by SAPs by seeking the views and opinions of principals of SAPs operating in regional and rural centres in Australia. The findings of this study will contribute and provide valuable insights on the nature of accounting change, especially with SAPs which are relatively under-researched. The key research questions to be investigated are as follows:

- RQ1.* How have SAPs responded and accommodated the influences of their contextual environment?
- RQ2.* In what ways SAPs have been proactive in shaping their environment, rather than just merely responding to the environmental changes?
- RQ3.* Whether SAPs in rural and regional centres respond to their contextual environment differently or do they show similar behaviour patterns?

The rest of the paper is organised as follows. In Section 2, we examine the nature of SAPs, and describe the context within which they operate. This is followed by a description of the context of the case study and justification of research methods adopted for this study. We then provide various empirical evidences on issues, challenges and concerns of selected SAPs, located in regional and rural Australia, and how they have adapted to, and in turn shaped their environment. The paper concludes with our observations on the changing role of SAPs in rural and regional centres in Australia, especially in far North Queensland, and outlines implications for SAP more generally, local as well as overseas.

2. Prior literature on accounting profession

Some may see accounting more as a technical craft rather than a profession, not quite at par with other professions, such as, medicine and law (Dyckman, 1974; Fogarty *et al.*, 2006).

Loss of independence, collusion, conflict of interest and unethical behaviour among practicing firms that make up the profession are examples of counterclaims to professionalism. The “Big Five” got down to “Big Fours” due to the demise of Arthur Anderson as a result of the Enron saga. In recent years the Big fours’ have gone through many strategic and structural changes as a result of external and internal pressures mostly arising from globalisation of their activities (Brock and Powell, 2005; Perera *et al.*, 2003). The history of these institutions in the prior century was marked by evolutionary growth and amalgamations. In 2000 and onwards, we are witnessing major structural changes in these firms such as divesting their consulting services and acquiring legal practices. By mid-2001, three of the Big Five firms had sold their consulting arms, and yet at the same time all of them had either set up their own law firms or became part of the network of law firms. Brock and Powell (2005) have analysed these structural changes using Greenwood and Hinings (1996) model of “radical organisational change” that draws upon old and new institutionalism. Perera *et al.* (2003) discussed the nature of globalisation in Big Five accounting firms and examined its influence within these firms. While they have specifically focused on large firms, their findings have implications for small and medium accounting practices. Their findings identified deregulation and technology as the major drivers of globalisation leading to homogenisation of practices within firms. Between 1990 and 2001, the Big Five focused on diversification of their practices by including value-added activities. Their revenues from consulting services increased considerably and in the same period the revenues from auditing and assurance services dropped. These firms were regarded very much as multi-disciplinary practices. Corporate collapses, especially the case of Enron and other accounting scandals involving loss of independence and unethical behaviour led to more stringent regulations on consulting services and therefore, a further structural and strategic changes in this regard were more evident in these large firms (Perera *et al.*, 2003; Brock and Powell, 2005).

The review of literature on accounting profession needs to make some reference to the critical literature in this area because the critical perspectives on accounting now seem to be a well-established domain and a body of knowledge. The initial critical literature in accounting emerged with the launching of Tinker’s (1985) Paper Prophets, and several journals, texts and monographs have appeared since then. In Paper Prophets, Tinker raised, among others, “complex, intractable and vexing” global issues such as multinational exploitation, environmental issues, price gouging and weaknesses in the international banking system, and the role of accounting and accounting profession in “creating and exacerbating them”. Certainly, accountants and the accounting profession alone are not responsible for the above state of affairs, but their role and responsibilities in these social evils cannot be understated. Accountants have been criticised for their role in capital accumulation and the large accounting firms have been criticised for their enormous power, domination and global influence (Sikka, 2001; Brock and Powell, 2005).

To date the bulk of the literature on accounting profession has been dominated by the activities of large accounting firms, the “Big Four” (previously Big Eight, Six and Five). There is dearth of literature on small and medium accounting practices, hence, the focus of this study. Recently small and medium public accounting firms in some countries have moved beyond routine, narrow and technical compliance-driven tasks, into offering broader, non-traditional services to their clients (Gibbins and Wright, 1999; Ciccotosto *et al.*, 2008). Among non-traditional services, those that feature prominently are financial planning and control, business valuations, forensic

accounting, family trusts and bankruptcy (Ciccotosto *et al.*, 2008). As said earlier, there is no doubt that the academic literature on SAPs is limited and presents mixed findings. However, a UK study by Marriott and Marriott (2000) require some mention due to the issues raised therein. It recognised the changing nature and complexity of the environment within which SAPs were embedded and the challenges faced by small accounting practitioners in developing and cultivating client relationships. The study found that the practitioner/client relationship was mainly an economic one that arose from compliance-related tasks such as accounting, tax and audit. Marriott and Marriott (2000) argue that such narrow regulatory-driven tasks do not add the desired value to smaller clients. They argue that many small business owners have limited financial and management skills and cannot understand, interpret information contained in various financial reports for their day-to-day decisions. This, UK-based qualitative study therefore, calls on the small accounting practitioners to provide greater management accounting information in a form (such as simple notes to items in the financial statements, charts, tables, graphs and ratios) which is more likely to be understood, interpreted and used by entrepreneurs in small firms.

In a survey-based North American study, Sen and MacPherson (1998) developed tests for regional variations in the operating characteristics of small- and medium-sized public accounting firms in the New York State (USA). Drawing upon Noyelle (1997), this study examined whether there was a change (between regions and over time) in the nature of services provided by small- and medium-sized accounting practices in the State, and whether the shifts in the nature of services, if any, led to new connections in foreign markets. Several general but unexpected conclusions were drawn from the survey results. Overall, the findings of this study suggested that small- and medium-sized public accounting firms provided relatively standardised routine services (accounting, auditing and tax) to local or regional clients. This finding is similar to those of Marriott and Marriott study reviewed earlier. With regard to new connections in foreign markets, there was very little evidence of internationalisation of services by these firms, with only modest evidence of functional diversification (Sen and MacPherson, 1998). The firms in the study were generally found to be resource constrained and, therefore, unable to systematically explore and/or develop non-local connections for better opportunities.

In another study, Cunningham (1983) found many reasons for small business failure in Canada, and signalled accounting problems and bad management as the major contributors to this state of affairs. One remedy suggested for small business clients was to make use of the expertise of their professional accountants who should ensure simple book-keeping systems to provide timely information. It called for the provision of non-traditional services to small business clients and this to extend to areas such as implementation of control systems, forecasting cash flows and regular reviews of clients' financial information.

Finally, Kirby and King (1997) examined the relationship between small businesses and small- and medium-sized accountancy practices in North-East England. Their findings provided support to some of the earlier research findings and highlighted that "the accounting profession (did) not accept any responsibility for the small business sector other than contractual obligations" for compliance-related works (Lewis and Toon, 1986, p. 1, quoted in Kirby and King (1997, p. 295)) and that practicing accountants often "give advice only when it is requested" (Fearn, 1984, p. 66, quoted in

Kirby and King (1997, p. 295)). Further, White (1983, p. 74, quoted in Kirby and King (1997, p. 296)) maintained that “accountants were too busy and disorganised, too fee conscious and simply not trained to provide a full range of business services”. Overall, Kirby and King (1997, p. 302) found that small and medium professional accounting firms have a potentially important responsibility and a role to play for their small and medium business clients. This calls for a change in the conventional relationship between the professional accountant and her/his client, and to narrow, and if possible, close the expectancy gap that continues to exist between the two.

3. Nature of SAPs and organisational change

Professional accounting firms have distinctive features. These firms are knowledge intensive and employ qualified professionals. Professional organisations in general operate differently compared to other businesses and government organisations (Mintzberg, 1979; Ouchi, 1980). Greenwood *et al.* (1990) portrayed accounting firms as distinct because these organisations are owned and managed by the same people, i.e. the principals/partners. Often these types of organisation are referred to as “P2” type. Cooper *et al.* (1996) suggested that a professional organisation was similar to a large organisation. These firms need to be managed like large businesses as their mode of operation is quite similar, and labelled them as managed professional business. Such a categorization was influenced by managerialist tendencies. While the bulk of the literature on professional accounting firms focus on large practices, we argue that in large, medium or a SAP, the key feature of knowledge intensity will always be there. However, it is argued here that SAPs are not a scaled down version of large accounting firms because of their distinct features in terms of the nature of services, customers and the contextual environment. Given the dearth of literature on SAPs, the focus of this study has therefore, been on them.

This study uses Greenwood and Hinings (1996) model to understand the changes in SAPs. The model draws upon institutional theory as a starting point but charts into neo-institutionalism, a theory that goes beyond isomorphism and emphasis on legitimacy, into accounting for organisational change and adaptation that links “organisational context and intraorganisational dynamics” (Greenwood and Hinings, 1996, p. 1023). In its early stages, institutional theory focused on homogeneity, conformity and uniformity in organisational structures and strategies of control arising from coercive, mimetic and normative pressures (DiMaggio and Powell, 1983). In recent years, attempts have been made to extend the contribution of institutional theory to better understand the role of human agency and related issues of power, interests, conflict, contradictions and change in social and organisational life (Greenwood and Hinings, 1996; Lounsbury, 2008). With this new dimension added to institutional theory, it has the potential to make contribution to understanding organisational change as well as stability. Its strength certainly lies in the way human agency is intertwined with institutionalised contexts to provide a better basis for understanding change.

We argue that the Greenwood and Hinings model is quite comprehensive and provides a framework for analysing organisational responses in relation to their contextual environment. It also includes the interplay between environmental factors, power and value considerations within the organisation. The contextual environment comprises market and institutions within which organisations are embedded. While market forces are seen in terms of resources and competitive factors, the institutional

field is constitutive of deregulation, legitimacy of accounting profession, globalisation and the role of technology. Greenwood and Hinings (1996) suggest that contextual and institutional factors are not sufficient to bring about changes unless they are supported by precipitating and enabling factors. Precipitating factors are conceptualised as dissatisfaction with the status quo and value commitments. The key players must be dissatisfied with the existing situation and, are expected to possess values to take the organisation further, and adjust to the changed circumstances. The enabling factors are seen in terms of power relations within the organisation that provide necessary commitment and leadership for organisational change strategies. Greenwood and Hinings (1996) point out that not all organisations would experience similar changes as there will be variations in their contextual, precipitating and enabling variables. It is argued that SAPs face different contextual environment which shapes their structures, strategies and service offerings, and in turn gets shaped by them. In addition, SAPs being small businesses, the precipitating and enabling power relation variables will behave differently. Leadership styles in SAPs are mostly shaped by either the sole partner or a few partners and in this paper, we deal with SAPs which are mostly owned and managed by a sole partner.

This paper adopts a modified version of Greenwood and Hinings (1996) model. The contextual model for SAPs is similar; however, SAPs face an immediate environment which is influenced by local economy and competition among SAPs. SAPs mostly have sole partners or limited partnership, and therefore, the precipitating factors such as perception of dissatisfaction, and enabling factors such as power relations will be limited. Instead, such behaviour can be explained by entrepreneurship characteristics. The modified model of Greenwood and Hinings include leadership of the owner/manager in identifying the needs for change and introduction of innovative strategies and management practices. SAPs, especially those operating in regional and rural areas, face a challenging environment characterised by changes in customer demand for services, demographic changes and changes in local economy. It is argued here that the strategy-setting process in SAPs is closely linked to their internal capabilities and immediate contextual environment. Unlike large accounting practices, SAPs are owned and operated by local accountants who tend to concentrate in a limited local area. The location factor of such practices poses some limitations in the form of skills and knowledge shortages and limited scope for diversification within a limited space. However, it is likely that SAPs would adopt innovative practices to adapt to their circumstances depending upon changes in local conditions.

4. Data sources and research method

This research aims to provide a rich understanding of the strategies that SAPs adopt to get on in their contextual environment. Even though survey research can provide overall measures of SAP preferences when faced with certain circumstances, it fails to reveal why and under what circumstances such organisations undertake strategic changes to adapt to their circumstances. In methodological terms, this study adopts an exploratory case-based research (van Maanen, 1979; Yin, 2003; Patton, 1990). Such an approach is adopted to gather information on organisational and personal circumstances that drive change strategies.

The empirical evidence for the study comes from an in-depth study of six SAPs. These SAPs were carefully selected so that they represented SAPs in regional and rural areas.

We make a distinction here between regional centre-based SAPs and regional SAPs. This research was undertaken in the far North Queensland which is approximately 1,700 km from the state capital Brisbane. The subject SAPs are chosen from regional centres and rural areas. The main objective of this research was to identify the issues facing SAPs in remote areas and whether there were any differences in their responses to their immediate contextual environment. Even though both regional and rural accounting practices are far removed from major metropolitan cities, the regional centres are small towns in a region. These centres are served by small local municipalities and usually are commercial centres for the region. The rural areas are thinly populated and are mostly inhabited by farmers, small business and other primary producers. SAPs in regional centres specialise in different accounting areas and serve different customers in these centres. The rural SAPs on the other hand are situated in remote and small rural areas. These firms serve farmers and small traders in one or several nearby rural areas. Of these six SAPs, three were selected from regional centres and three from rural areas. The participants represented different accounting professional groups within Australia, such as the Institute of Chartered Accountants (ICA), Certified Practising Accountants (CPA) and the National Institute of Accountants (NIA).

The research was conducted through a series of face-to-face semi-structured interviews with the key informants from each SAP firm, mainly the owner or the partner of the firm. Most of these interviews lasted for about an hour, the maximum being for about an hour and a half. The interview questions were tested on two academic colleagues with a view to remove any ambiguity in them. These questions were sent to the interviewees prior to the scheduled meetings. Interview questions centred on exploring issues, such as, issues faced by regional and rural SAPs, organisational strategies to address the contextual uncertainties, entrepreneurial behaviour of SAP managers and owners and issues relating to the change process. However, the process was conducted in a flexible manner to allow for interesting issues to emerge. The interviews were recorded and back-up notes were also taken. The interview proceedings were subsequently transcribed and analysed to identify a number of key themes relevant to the literature review and research questions (van Maanen, 1979; Scapens, 1990). The Nvivo software was used to analyse the interview documents.

5. SAPs in regional and rural areas

SAPs have characteristics similar to small businesses (Ciccotosto *et al.*, 2008). Within the overall accounting profession, 67 percent of practicing accountants work in small- and medium-sized firms and the remaining 33 percent work in tier one and two firms (ASCPA, 2003, 2004). These SAPs provide valuable services to local economy and generate jobs for local school leavers and tertiary students (Ciccotosto *et al.*, 2008; Fraser, 2003). Within the SAP, the firms that operate in remote regional and rural centres face different challenges and opportunities as compared to their metropolitan colleagues.

SAPs in rural and regional centres have some similarities and differences. Being small in size and operation, they show similar features of small business. These practices serve local clients and offer a range of services including tax return, accounts preparation and other financial services as required by their clients. Apart from a few, most of these practices often do not specialise in auditing. Even though, these practices show similar features, there are significant differences between rural and regional accounting practices due to their locations and types of clients they serve.

Rural SAPs serve mostly local farmers and some small traders whereas regional centre-based accounting practices serve a diverse range of clients, such as, different type of traders, small investors, salaried employees and retirees. As a result, there are some opportunities for regional-based accounting practices to develop services for their clients. SAPs in the rural areas, however, do not have such diversity in their client base.

In rural areas SAPs are indeed very small. The opportunity is there for them to know their clients and provide services accordingly. Being close to small farmers and traders, these rural SAPs understand their clients needs better than the bigger accounting firms, and try to offer a wide range of accounting and other services. Closer ties with clients help rural SAPs to talk and discuss issues with their clients on a more regular basis. One rural SAP principal commented:

We have a range of networks and contracts that give us information. We find that we can work well with local people including Aborigine People. They are comfortable with us because we talk to them. We don't use technical jargons but discuss in plain simple terms. As we know most of them for a long time since the inception of their business or operation, we have wealth of knowledge. Apart from business dialogue we also discuss other common interests.

SAPs operating in rural areas serve small clients and they mostly represent farmers and small traders operating in rural areas. Another rural SAP principal commented:

In terms of client diversity, we have about 70 percent sugar farmers, probably 15 percent cattle farmers, vegetable growers probably 5 percent and the remainder would be small businesses in the area. So we are still very agriculture-based. Our clients come from all over the places, from the Gulf of Carpentaria, Charters Towers and Mackay. These are all small rural areas and townships.

SAPs in regional centres have a diversity of clients, but most typical client base would be small businesses, investors, property owners, and individuals. Some of these regional centres are small cities where large accounting firms also operate. However, these large firms offer different clients with different products.

5.1 SAPs and their services

Small accounting firms provide a range of compliance and non-compliance-related professional services to their clients. These include tax returns, accounts preparation, auditing of financial statements, financial advice and other services. However, depending on the location and the nature of clients, regional and rural accounting practices cater for different services to suit the needs of their clients. Even though SAPs offer board-based accounting services, there are observable differences based on size, location and types of customers served.

SAPs in regional centres tend to specialise in service offering. Based on the empirical evidence it was found that the SAPs in regional centres are mostly sole practitioners who have capacity to offer existing and new services. One SAP owner commented:

Well, when we first kicked off it was basically all taxation and auditing. The biggest role change has probably been in the financial planning area. We have taken a much more active role in that area because we find that other financial advisers weren't giving the best advice for our clients. They were taking them down the wrong way. We do some audits for couple of registered companies.

Some SAPs in regional centres tend to specialise in certain services based on their expertise and strategic priorities. The clients served by SAPs in regional centres are small businesses and individuals who have some accounting knowledge but lack in-house accounting. These clients have some understanding of their accounting needs, such as, the need to complete GST returns, filing tax returns and seek investment advice. Another SAP principal commented:

Our business is 99 percent towards taxation and GST. We initially started as a general accounting practice firm. However, after few years we found that auditing job was problematic as it was time consuming, risky and there were too much competition especially from larger accounting firms. We decided to concentrate on tax and GST as these activities were repetitive and financially rewarding. It is a great area to serve as all small business and individuals need tax return services.

SAPs in rural areas serve mainly local farmers and small traders. This client base lack accounting knowledge and depend largely on accountants for all of their accounting and other support needs. They do not know what they want and might come to these SAPs for all sorts of services. As the rural economy changes, may be due to weather patterns and other local conditions, the need for accounting and related services also change. A rural small practitioner commented:

As time has gone on with the sugar industry, we have had to do a lot more of cash flow budgeting and supply these to banks. You name it; we pretty well offer what our clients want these days. General accounting and taxation advice and that goes right through from individual's first return right through to superannuation. We do all the financials for them.

Services offered by rural accountants are not purely accounting. Clients have little competence in dealing with institutions, such as, banks, taxation office, social welfare office and other local government and central agencies, and the majority rely on local accountants for help in dealing with these institutions. The previous respondent narrated as follows:

We are preparing reports for fuel rebates for our sugar farmers for the last two years. The government has started a new scheme known as the 'New start Allowance' where farmers can apply if they are not earning enough to recover their costs. They can also apply for an interest subsidy. Apart from these there are drought subsidies and freight subsidies for which we offer help to the farmers by preparing proper documentations.

The evidences from the field work suggest that rural accountants offer wide ranging services. In some cases, non-routine services are time consuming for which there may be no payment at the end of the day. When the farmers are suffering from draught they are not in position to pay for accounting and other services. The same practitioner commented:

We have supported our clients in bad times even if we were not paid for the services we offered. Our clients understand and appreciate our support and when they are in a better position they can either pay arrears or pay for the current jobs. In the end, if we don't support the farmers and local traders in bad times we may loose them altogether. However, in the end, we do a lot of services to keep our clients afloat.

6. Strategy and organisation change within SAPs

The contextual environment of accounting profession has changed as a result of technological developments, deregulation of professional markets, increased competition,

increased liability exposures and new international reporting requirements (Greenwood and Lachman, 1996). While most of these changes have influenced the accounting profession in general, large accounting firms have addressed these changes by changing their organisation structure, incentive systems and through merger of accounting firms. Even though SAPs are affected by these changes, their activities are closely influenced by their immediate environment in which these firms are located. SAPs in rural centres and regional areas are influenced by the local economy and changes in accounting rules and tax laws.

In a complex contextual environment it is crucial that firms take appropriate strategies to adapt to these changes. Strategic alignment is critical for long-term survival for all firms, including SAPs. Changes in environment ushers new demands from clients which organisations need to address. Tasks and customer demands are ever changing and SAPs need to change their priorities based on their capabilities. Priorities need to be set in such situations to define boundaries and ask fundamental questions such as the nature of services to be provided, the range of customers to be served and the geographical areas to be concentrated upon.

6.1 SAPs in rural areas: changes

Empirical evidences suggest that SAPs changed their strategies and adopted innovative practices to accommodate environmental challenges and pressures. Agriculture gets affected by natural calamities and these in turn affect the activities of SAPs. The local economy in North Queensland has suffered significantly due to its dependence on sugar cultivation and production. The client base of rural SAPs comprises local sugarcane farmers and other traders badly affected by natural conditions. One small practitioner commented:

When there is a crop failure it brings measurable effects to the local economy and businesses. The farmers cannot pay off their loans and their income is affected. So their purchasing power goes down. When these happen, they need more support from us so that they can survive and plan for the next crop.

Faced with a downturn in the local economy, SAPs tried to ascertain the situation and undertook innovative strategies to cope with the situation. When the local economy was buoyant and sugar industry was prosperous, the farmers could afford to pay accountants, their fees. Lack of accounting knowledge deterred farmers from keeping proper accounting records. One local accountant commented:

Yes, they used to bring all records in shoe boxes along with all cheque butts. We had to sort these receipts and invoices before preparing accounts and tax returns. Accounting is labour intensive, especially when invoices are manually processed. As a result, our charges went up through the roof; it took a lot of time to process all transactions from a messy situation.

With economic downturn, the farmers could no longer afford to pay higher accounting fees. The local accounting practices needed to introduce some measures to help local farmers. At least two SAPs tried to educate the farmer's spouses by supplying computer software to process the invoices. The same practitioner commented:

We have trained 90% of our clients in QuickBooks, a software package to process accounts. We made a conscious decision to protect our clients. So we were giving them advice and training, it was hands on training for getting people up to speed.

The training in QuickBooks involved providing computer packages, loading the software, installing all chart of accounts and bringing forward all account balances. Once the software was in operation, the local accountant would sit down with the client and give a run of the whole system, and followed the progress on a monthly basis as new data unfolded. The accountant would visit client's premises to make sure that the system was up and running. Once the system was set up, the clients could send their processed transactions to the accounting firms by email attachment. Through such education and training it was possible to reduce the cost of accounting fees. Such approaches helped to clean the job. All SAPs did not follow this practice and as a result could not lower their fees. To this one accountant responded as follows:

Other firms didn't do a thing and they just said bring the invoices in and we will process them. It was obvious that they pass on the labour intensive processing costs to clients. Fortunately for us we picked up a lot of those clients.

The usual practice among regional centre-based SAPs to set up branches in rural areas. Apart from opening branches they merge with, or take over existing rural practices. One local accountant commented:

Their mode of operation is always ad hoc and managing from distance. These firms open branches and fill this office by one or two people, normally by a receptionist. The regional centre based accountant visits rural offices to see clients when the receptionist makes some appointments.

As a result of economic recession, these regional centre based firms shut down their offices in rural areas. The local ones normally never shut their offices in rural areas but they may scale down their level of operations. Local clients prefer their accountants to remain close to them. They need to be able to just drop in, day in and day out. Local accountants are knowledgeable about local activities and the context, and it is easy to work with them than those located in regional centres. Further, clients cannot afford high prices charged by these regional centre-based SAPs. The following comment was made by a rural SAP owner:

The local clients are not complaining about the price too much because they know we are a hell of a lot cheaper than everywhere else. They appreciate the work and effort that we put into them so we don't have any problems. Years ago we used to have some clients who were complaining about fees but we got rid of those clients because they were the ones who didn't appreciate what we were doing. When they went to find another accountant they found that we were a lot cheaper any way, and we were giving better services. Now we are left with the ones that appreciate us and the new ones that are coming here tell us we don't care what fee you charge us, we just want service.

Apart from taking positive steps to help the clients by lowering accounting fees, one SAP took other steps in order to survive during economic down turn. The subject SAP needed to look for other sources of income due to reduced revenue from original clients. He took an unusual step to open a new branch at the regional centre. Depending on the proximity to regional centres, some growers from rural areas took their accounting work up there. This particular SAP opened a new branch at the outskirts of a nearby regional centre. The reason for such an endeavour was explained as follows:

During the economic downturn when our revenue dried up, we thought it would be an option to open a branch at the regional centre where there were different types of customers.

We did not however, abandon our rural base. I think it is much easier to go from rural to regional centres than the other way around. We always take a 'people' approach in dealing with clients, I found it easier to operate in a nearby regional area and this measure helped me to increase my customer base.

6.2 SAPs in regional centres

The regional centre-based SAPs tend to specialise in their area of expertise. Initially, the subject SAPs started to operate as a generalist offering all types of accounting service. Some found that it was more expensive to cater for the bigger clients as the nature of work could be more complex and demanding. If they specialise in a few services that are less resource intensive, then they can maximise the revenue and minimise costs. In this regard one small practitioner commented:

We used to do audit for two large companies. It was a very demanding task. We were too reliant on them. We could earn accounting fees of \$20,000 to \$50,000 from a single customer. But that ties up one person on one job all the time. Secondly, if you ever loose that client, it is a big chunk of fees out, and you have got to restructure. Thirdly, we just find them too demanding. Now, we try to stick to smaller type of client.

Regional centre SAPs tend to specialise in their area of expertise such as insolvency. Insolvency works are referred to them by various sources. They get appointed as liquidators of companies. For example, the Australian Tax Office uses accounting firms that specialise in insolvency to act as company liquidators or bankruptcy trustees. One SAP firm took a strategic decision to distinguish itself from other accounting firms. The whole process was explained as follows:

If we continue to do tax, GST and insolvency together, other accounting firms see us as competitors and are less likely to refer insolvency type of work to us. If you want an analogy, it is pretty much like a GP. If the general practitioners get a client with a heart problem they are not going to treat them, they are going to send them to a heart specialist and that is pretty much the relationship we foster. GPs are trusted by their patients so when they say 'you should go and see Dr so and so about your heart problem' they go there. So we are fostering that same type of relationship. In addition to referrals from other accounting firms, we get our businesses from other sources as well. Financiers and Banks either refer a client to us for fixing the problem directly or alternatively if they think it has gone too far they appoint us as receivers.

This accounting practice saw economic down turn as an advantage. A further comment was:

We actually get more business in the bad times than the good times. If the interest rates moved up by 1 or 2 percent we would be very busy. There will be a lot of defaulters unable to pay loan. We would probably have up to 500 cases a year or something like that. At present, our regional economy is not doing well, North Queensland is heavily dependent on primary production and commodity prices are low.

Apart from specialisation, one of the regional-based SAP tried to share resources. During economic downturn and as a result of competition from other accounting firms, many firms tried to find ways to reduce their costs. A response in this regard was as follows:

Our analysis showed that we had about 70 percent costs as fixed. This fixed cost included staff and other office related costs. We obviously did not want to reduce our capacity

to serve our clients. We negotiated with one local accounting firm to share office and administrative staff. This accounting firm was also experiencing similar problems.

Survival being at stake, several resource-sharing models were developed by some of the SAPs interviewed. In some cases each individual SAP kept its own client base but cooperated with others where it considered itself to be more efficient. One of such accountants commented:

For example, the guy (SAP) down the hall called Brett he is just a small tax practice. He has got one girl working for him. He just won't be able to spread his overhead far enough and he will either have to join in with somebody else or he will go out of business.

The main differences between regional and rural SAPs are listed in Table I.

6.3 Human resource implications of strategic options

SAPs usually want to recruit professional accountants or fresh graduates with relevant skills. These firms have neither resources nor capacity to provide in-house training for junior accountants. Moreover, there is skill shortage in the overall accounting industry. This skill shortage is more acute in regional and rural areas compared to metropolitan areas. An interviewee remarked:

We cannot even retain local students, once they go off to the cities and to the university they don't come back to the country area. The only time when girls have got boyfriends back here they will come back here and that is the only way we get qualified accountants.

Rural accounting firms prefer to recruit local school leavers and provide incentive to attract young people to join the profession. The accountant again commented:

Over the last couple of years we have been encouraging staff on a cadetship basis. So at least while they are training we have got them up to speed because we get about 10 years out of them then. It takes you two years to knock them into shape.

The regional centre-based small accounting firms have severe staffing problems and these, to some extent are overcome through cadetship and allowing time off to employees to attend university courses.

7. Discussion and conclusion

This paper highlights the implications of the contextual environment within which rural and regional centre-based SAPs are embedded, and in turn how the latter shape

	Regional centre	SAP	Rural areas
Service offered	Specialised portfolio (Tax, GST, insolvency, audit and accounts)		General portfolio (general accounting, tax returns, business advice, document and forms for government departments, subsidy claims preparation)
Strategic direction	Consolidate specialise		Diversify
Innovation	Internal efficiency and resource allocation		External environmental management
Staff training	Limited in-house training, cadetship		Limited facilities

Table I.
Characteristics of SAP in rural and regional centres

those contextualities of interaction. The Greenwood and Hinings (1996) model was used to explain the behaviour of SAPs in regional and rural areas.

(a) Market and institutional contexts

The SAPs in general are affected by similar changes faced by large accounting firms. However, being small, they exhibit certain other features based on their circumstances. These circumstances are their immediate environment where they operate. In recent years rural accounting practices have been hit by local economy. The evidence here suggests that all rural and regional centre-based accounting practices are affected by their market conditions and institutional environment. Such evidences are consistent with Greenwood and Hinings (1996) model. The institutional requirements representing accounting standards and tax laws. Affecting accounting practices. However, such impositions were accommodated by different accounting firms differently. While the larger accounting firms opted to consolidated their market share by mergers, acquisitions and commodification of services, the SAPs lacked resources and capabilities to follow similar strategies. The rural and regional centre based accounting practices experienced additional institutional requirements such as those coming from the Centrelink and Work Choice. Moreover, SAPs faced an immediate environment which was influenced by local economy, agricultural prospects and competition among SAPs.

(b) Internal capabilities and organisational change

Greenwood and Hinings (1996) model describes how market and institutional contexts are intertwined with the internal organisational conditions. Changes in contextual environment are expected to create dissatisfaction with the existing ways to doing things. Such dissatisfaction is also likely to create power imbalances in the organisation. However, this research could not locate these features among SAPs. SAPs mostly have sole partners or limited partnership, and therefore, the precipitating factors such as perception of dissatisfaction, and enabling factors such as power relations were of limited significance. Such behaviours can be explained by entrepreneurship characteristics. Organisational change among SAPs were mostly characterised by leadership styles of owner managers of SAPs. Being close to their clients, these SAP owners were able to understand the needs of their clients, and were able to design services to satisfy those needs.

(c) Innovation and change

While large accounting practices show innovations to change, or adapt to their environment, SAPs also show innovative practices. In some respect these innovations are significant and more innovative when their resources and capacities are considered. Consistent with Greenwood and Hinings (1996) assertion, there are significant variations among the SAPs. The regional centre accounting practices tend to specialise and their counterparts in rural areas remained generalists in their service provision.

The findings of this study show interesting results among SAPs. However, such results need to be viewed with caution, as firms with similar features may adopt different practices. The findings of this study provide valuable insights and may have implications for SAPs nationally and internationally. However, this study has its limitations.

Future studies can take a bigger sample of SAPs. Moreover, it would be interesting to investigate similar issues in different regional centres in Australia and in other countries. This research ushers the importance of more research into SAPs as these firms provide vital services to rural communities. Moreover, these SAPs exhibit different dynamics of resources and tensions which are very different from large accounting practices. Finally, the intraorganisational dynamics, a central theme of neo-institutionalism did not feature prominently in this study. This is due to the size of organisations selected in this study. The SAPs were indeed small practices and issues such as vested group interests and competing values could not be explored in depth.

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